

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7388
BILL NUMBER: SB 409

DATE PREPARED: Jan 8, 2001
BILL AMENDED:

SUBJECT: Sales Tax Exemption for Home Energy.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues	(84,000,000)	(172,000,000)	(177,000,000)
State Expenditures			
Net Increase (Decrease)	(84,000,000)	(172,000,000)	(177,000,000)

Summary of Legislation: This bill exempts the purchase of electricity, gas, oil, propane, coal, and other home energy sources from the state gross retail tax.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will experience additional administrative expenses to accommodate these changes in sales tax collections and to administer refunds to affected consumers who will pay the sales tax on home energy from January 1, 2001 until the bill is signed into law. The Department estimates that the administrative costs associated with informing consumers of their right to receive refunds and processing the returns could cost between \$150,000 and \$200,000.

Explanation of State Revenues: This bill would eliminate the sales tax on residential purchases of home energy sources; such as, electricity, natural gas, home heating oil, propane, or other fuel sources used for the heating and cooling of the home. Based on data from state and federal sources, it was estimated that a repeal of the sales tax on residential sales of energy sources, as specified by this bill, would decrease state revenue by approximately \$84 M in FY 2001, \$172 M in FY 2002, and \$177 M in FY 2003. Since this bill is retroactive to January 1, 2001, sales taxes collected on home energy after January 1, 2001 would be refunded to consumers (provided that a claim is filed with the Department of State Revenue).

The above estimate consists of estimated reductions in sales tax revenue from residential sales of electricity, natural gas, propane, and home heating fuel. The estimated revenue reductions attributable to these energy sources in FY 2002 (the first full year of impact) are as follows:

Electricity	\$ 111 M
Natural Gas	\$ 46 M
Propane and Heating Oil	<u>\$ 15 M</u>
Total	\$ 172 M

Tax revenue from the sale of coal and wood for home heating was not included in this estimate because of data limitations and the limited number of households that purchases these products for home heating.

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%).

The annual reductions to these funds for FY 2002 (the first full year of impact) are estimated to be:

State General Fund	\$ 101,590,630
Property Tax Replacement Fund	\$ 68,840,000
Public Mass Transit Fund	\$ 1,307,960
Industrial Rail Service Loan Fund	\$ 292,570
Commuter Rail Service Fund	<u>\$ 68,840</u>
Total	\$ 172,100,000

Future sales tax collections on the sale of fuel are dependent upon the price of the fuel and the quantity consumed by Indiana residents. The above estimates are based on the average fuel sales obtained from two distinct methods. The first used past expenditure data from the Bureau of Labor Statistics' *Consumer Expenditure Survey* to project households' future expenditures on home energy. The second method used current consumption data and price projections supplied by the U.S. Department of Energy, Energy Information Agency, to estimate future sales. It is important to note that fluctuations in the price of fuels directly influence the amount of sales tax collected.

Because of the nature of energy consumption, the elimination of the sales tax on home energy would be similar to increasing consumers' disposal incomes. People with higher incomes tend to purchase more goods. To the extent that more taxable items are purchased, the impact of the bill on the state's sales tax revenue may be partially mitigated.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Tom Conley, Department of State Revenue, 232-2107; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; U.S. Census Bureau; U.S. Department of Energy, Energy

Information Agency; *December 19, 2000, Revenue Forecast Update.*